

Message Text

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20

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01 DRC-01

/169 W

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R 081436Z NOV 73

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 6913

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION OECD PARIS

UNCLAS HELSINKI 2839

E.O. 11652: N/A

TAGS: ECON EFIN FI

SUBJ: RUMORS OF FINNMARK REVALUATION

BEGIN SUMMARY. GOVERNOR OF BANK OF FINLAND INFORMED
PRESS NOVEMBER 7 THAT BANK IS WILLING TO CONSIDER
REVALUATION OF FINNMARK BUT ONLY IN CONTEXT OF AN
ECONOMIC PACKAGE WHICH SLOWS DOWN INFLATION. NO
IMMEDIATE ACTION IS ANTICIPATED. END SUMMARY.

1. IN RESPONSE PRESS STATEMENT (UUSI SUOMI OF
NOVEMBER 6) THAT FINNMARK MAY BE REVALUED, GOVERNOR
OF BANK OF FINLAND ANNOUNCED NOVEMBER 7 THAT "BANK
IS READY TO NEGOTIATE ON REVALUATION OF FINNMARK
(PRESUMABLY 7-8 PERCENT)." GOVERNOR'S STATEMENT
WAS STRONGLY QUALIFIED HOWEVER BY HIS STATEMENT THAT
THIS WOULD BE DONE ONLY UNDER AN OVERALL (INCOMES
POLICY) SETTLEMENT WHICH COULD BE SHOWN TO SLOW DOWN
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PRESENT INFLATIONARY PROCESS. BANK STATEMENT WAS

PROMOTED BY DESIRE TO SQUELCH EARLIER RUMORS OF DEVALUATION OF FINNMARK WHICH TENDED TO LEAD TO SPECULATIVE BUYING AND HEIGHTENED DEMAND BY LABOR FOR SUBSTANTIAL WAGE INCREASE NEXT SPRING. ALSO, STATEMENT MAY HAVE BEEN INTENDED AS COUNTER TO CRITICISMS BY LABOR AND BUSINESS (INCLUDING COMMERCIAL BANKS) THAT BANK OF FINLAND HAD HANDLED INFLATION PROBLEM BADLY.

2. BANK SOURCE ELABORATED TO EMBASSY OFFICER THAT THERE IS NO PROPOSAL NOW TO TAKE ANY STEP EQUIVALENT TO REVALUING FINNMARK. ON OTHER HAND, IN SITUATION IN WHICH DEFICITS IN TRADE BALANCE HAVE GROWN SHARPLY AT SAME TIME DEMAND FOR PRODUCTS OF FINNISH FOREST INDUSTRIES CONTINUES STRONG, SOURCE SAID IT IS IN INTEREST OF FINLAND TO SEE FINNMARK STRENGTHENED. IN THIS CONNECTION, RELATIONSHIP OF DOLLAR TO FINNMARK HAS TENDED TO WEAKEN DURING PAST WEEK IN SHARP CONTRAST TO DEVELOPMENTS IN EUROPE AND JAPAN. ACCORDING TO BANK SOURCE THIS DEVELOPMENT IS NOT DUE TO ANY SPECIAL FACTORS AND CHANGES IN RECENT DOLLAR-FINNMARK EXCHANGE RATE ARE IN KEEPING WITH BASIC BANK OF FINLAND POLICY TO KEEP THE FINNMARK STABLE AGAINST FOREIGN CURRENCIES TO EXTENT POSSIBLE.

3. AS BACKGROUND, CONSUMER PRICES IN FINLAND HAVE RISEN ON AVERAGE MORE THAN 10 PERCENT IN FIRST NINE MONTHS AND BY END OF YEAR OFFICIAL ESTIMATE INDICATE A RISE OF 13.8 PERCENT. PRICES IN SOUTHERN AREAS OF FINLAND AND PARTICULARLY HELSINKI HAVE BEEN SUBSTANTIALLY GREATER. THOUGH PRICES INDICATE OVERHEATING IN ECONOMY, INDUSTRIAL OUTPUT HAS GONE UP ONLY 3.3 PERCENT DURING FIRST EIGHT MONTHS AND OVERALL GROSS DOMESTIC PRODUCT FOR YEAR WILL REGISTER GROWTH OF 5-6 PERCENT. WAGE INCREASES OF 13-15 PERCENT THIS YEAR WHICH FAR SURPASSES ESTIMATED PRODUCTIVITY RISE OF 5 PERCENT IS PARTLY RESPONSIBLE. INCOMES POLICY NEGOTIATIONS WHICH HAVE BEGUN PRELIMINARILY AND WHICH MUST BE CONCLUDED BY APRIL NEXT YEAR WILL BE CRUCIAL TO FINLAND'S ECONOMIC STABILITY. ANY DECISION TO REVALUE AT SOME FUTURE DATE ALSO MUST CONSIDER FACT THAT DURING FIRST NINE MONTHS OF 1973 THERE WAS A TRADE DEFICIT IN EXCESS OF FMK 1.6 BILLION (DOLS 435 MILLION)

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AND PROSPECTS FOR NEXT YEAR APPEAR NO BETTER.

4. DEVELOPMENTS DESCRIBED ABOVE HAVE HAD SEVERE IMPACT ON EMBASSY OPERATIONS AS DOLLAR PURCHASING POWER HAS DROPPED. U.S. EXPORTS, ON OTHER HAND, HAVE BECOME MORE COMPETITIVE IN THIS MARKET.

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